

Statement of

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Mr. Chairman and Members of the Subcommittee:

My name is Jay Thomas. I currently serve on the law faculty of the Georgetown University. I am honored to have the opportunity to testify at this hearing in my individual capacity, as a concerned observer of the patent system.

This subcommittee deserves congratulations for its perseverance in its efforts to reform the legal regime that is widely regarded as America's engine of innovation. Many of the provisions of H.R. 2795 have been the subject of serious discussion since the publication of the Report of the President's Commission on the Patent System—which was issued in 1966 at the request of the Johnson administration. Your leadership in advancing these reforms has been remarkable, and we remain confident that you will achieve a bill that will balance the interests of patent owners, innovative industry, and the public alike.

I. Apportionment of Damages

Pending legislation would address the award of damages where the patented invention forms but one component of the infringer's larger commercial product or process. Section 6 of both the July 26, 2005, substitute to H.R. 2795, as well as the proposal of September 1st, are directed towards perceived concerns about overly generous damages awards in this context. Generally speaking, they both call for the apportionment of infringement damages in a manner that takes into account the infringer's own contributions. The proposed language derives in part from the seminal 1970 opinion of the federal district court in *Georgia-Pacific Corp. v. United States Plywood Corp.*,¹ which has in turn been frequently relied upon by the Federal Circuit.²

¹318 F. Supp. 1116 (S.D.N.Y. 1970).

²*See, e.g.,* Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH, 408 F.3d 1374 (Fed. Cir. 2005).

Given that this general concept of apportionment has been part of the patent law for at least 35 years, one might wonder about the controversy this portion of the bill has engendered. The rationale for this provision appears to be concerns over the potential for overly generous awards of damages based upon so-called system claims. Allow me to provide a simple, and somewhat exaggerated example illustrating this concern. The inventors of an improved rear view mirror may draft a claim that sets out the various components of their mirror. But they may also draft a claim towards an automobile that incorporates that rear view mirror. Under established law, if an automobile manufacturer infringes the rear view mirror patent, an award of damages based upon the purchase price of the entire automobile is inappropriate. The precise damages determination, however, is one that is necessarily subject to case-by-case consideration.³

With apportionment already a settled part of the patent law, and indeed an established part of allied disciplines such as the copyright law as well,⁴ a codification of this principle does not likely qualify as a centerpiece of this legislation. One option that the subcommittee may believe to be most appropriate is simply not to speak to this issue within this legislative package.

Should this subcommittee believe that legislative reform is appropriate, allow me to make a few observations concerning Section 6 of the July 26, 2005, substitute to H.R. 2795. That provision in part requires a court to assess “the portion of the realizable value that should be credited to the inventive contribution as distinguished from” other factors. The required assessment of the “inventive contribution” of a patented combination—rather than an analysis founded upon the words of the claims themselves—would arguably mark a notable change in U.S. patent law. As the Federal Circuit recently stated:

It is well settled that “there is no legally recognizable or protected ‘essential’ element, gist or ‘heart’ of the invention in a combination patent.” Rather, “[t]he invention’ is defined by the claims.”⁵

The subcommittee may wish to consider whether apportionment, which is a discrete problem arising in a limited set of cases, merits what might constitute a substantial change to the patent law. Notably, the September 1st proposal eliminates the bill’s reference to an “inventive contribution.”

The July 26, 2005, substitute to H.R. 2795 also refers to “combination patents.” The subcommittee should be aware that this phrase is a term of art in the patent law. Older case law in essence used this term as a pejorative, to suggest that such a patent claimed an invention that was merely a

³See ROGER E. SCHECHTER & JOHN R. THOMAS, PRINCIPLES OF PATENT LAW § 9.2.2.3 (2d ed. 2004).

⁴See, e.g., *Frank Music Corp. v. MGM*, 886 F.2d 1545 (9th Cir. 1989).

⁵*Allen Eng’g Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1345 (Fed. Cir. 2002).

collection of parts that have been cobbled together, and was thus of dubious validity.⁶ As the Court of Appeals for the Federal Circuit has more recently explained:

Virtually *all* patents are “combination patents,” if by that label one intends to describe patents having claims to inventions formed of a combination of elements. It is difficult to visualize, at least in the mechanical-structural arts, a “non-combination” invention, i.e., an invention consisting of a *single* element. Such inventions, if they exist, are rare indeed.⁷

The subcommittee may wish to recognize the history behind the term “combination patent” in deciding whether to employ it within the context of this legislative reform package.

Finally, both the language of the July 26, 2005, substitute to H.R. 2795, as well as the proposal of September 1st, expressly apply only to an award of a reasonable royalty. Notably, the courts may also award damages, in appropriate cases, equal to the lost profits of the patent proprietor. Under the Patent Act, the reasonable royalties methodology is effectively the minimum compensation base.⁸ The reason both proposals are limited to reasonable royalties probably stems from the fact that they derive from the *Georgia-Pacific* case, which under its facts was itself limited to reasonable royalties. The policy grounding for a statutory apportionment provision applying only to reasonable royalties is unclear, however. The subcommittee may wish to consider whether the apportionment rule should apply to both damages methodologies applicable under the patent laws.

II. Transfers of Venue

New to the more recent versions of H.R. 2795 are provisions directed towards venue in patent litigation. For policy reasons that remain obscure, Congress has enacted a specialized venue statute for patent cases. Since the 1990 decision of the Federal Circuit in *VE Holding Corp. v. Johnson Gas Appliance Co.*,⁹ this statute has been construed in a liberal fashion. For corporate defendants, at least, venue is effectively coterminous with personal jurisdiction.¹⁰ The result is a great deal of flexibility, to say the least, for patent plaintiffs in selecting a forum for litigation.

Apparently animated by concerns over forum shopping, Section 9 of H.R. 2795 would provide

⁶Great A&P Tea Co. v. Supermarket Equip. Corp., 340 U.S. 147 (1950).

⁷Stratoflex, Inc. v. Aeroquip Corp., 713 F.2d 1530, 1540 (Fed. Cir. 1983).

⁸35 U.S.C. § 284.

⁹917 F.2d 1574 (Fed. Cir. 1990).

¹⁰SCHECHTER & THOMAS, § 10.1.3.

more restrictive venue provisions. The September 1st proposal would instead stipulate standards for transfer of venue to a more appropriate forum.

A few observations about these competing approaches, each of which has its merits, may be appropriate. First, the existence of the Court of Appeals for the Federal Circuit limits the impact of forum shopping in patent cases. Forum shopping does not involve the search for the more favorable of alternative interpretations of the patent law, but rather different levels of judicial expertise, as well as distinct docket management systems that imply a different pace of litigation. As a result, the impact of forum shopping is diminished in comparison to many other fields of law.

Flexibility in forum selection may well have contributed to the concentration of patent litigation in a handful of districts. This trend has allowed “thought leaders” to develop among members of the federal bench—distinguished jurists who have heard more than their share of patent cases. In addition to providing experienced fora for the resolution of patent disputes, these trial jurists enrich our bar and provide perspectives that might otherwise be lacking in law and policy debates. The potential impact of any proposed legislation upon this development should be considered.

Finally, one of the major themes of H.R. 2795 is the desire to decrease the costs and complexities of patent litigation. Deletion of the best mode requirement, and limitations upon the doctrines of inequitable conduct and willful infringement, are among those provisions that would lend more focus to patent trials. The September 1st proposal, which provides standards for transfer of venue, is arguably not in keeping with the remainder of the bill, which generally limits resource-intensive satellite determinations in patent cases. This subcommittee may wish to get to the bottom of the nature of venue in patent cases, rather than potentially add an additional wrinkle to patent enforcement proceedings.

III. The Grace Period

Since 1839, the U.S. patent law has allowed for a one-year grace period. However, because the one-year date is based upon the actual U.S. filing date,¹¹ that provision has been something of an illusion to foreign applicants. This means that applicants who rely upon grace periods in their home jurisdictions, and then take advantage of the full period of international priority, imperil their U.S. rights.

Recently, U.S. trade negotiators have arguably aggravated this situation. For example, in the free trade agreement negotiated between the United States and Australia, each signatory agreed to provide a one-year grace period based upon the applicant’s own disclosures.¹² Perhaps not mentioned during the negotiation was that should an Australian inventor take advantage of the grace period in his own jurisdiction, he would almost certainly forfeit any U.S. rights that he might be able to obtain.

¹¹35 U.S.C. § 119(a).

¹²See Art. 17.9(9) of the U.S-Australia FTA.

Legal harmonization—through the incentives contemplated by the proposed legislation—is an important goal. Nonetheless the United States could opt to lead by example, and provide a grace period based upon the effective, rather than the actual U.S. filing date.

IV. Conclusion

Let me close by offering a few observations about H.R. 2795. Although the FTC and National Academies Reports may have served as the foundations for this legislation, it should be noted that (1) many of the recommendations do not form part of H.R. 2795; and (2) that many of the provisions of H.R. 2795 find no analog in those reports. The subcommittee may wish to acknowledge these distinctions in its report accompanying this legislation, and explain why many of the significant recommendations within these reports did not see the light of day.

Second, two of the original provisions of H.R. 2795, relating to injunctions and continuation applications, are apparently no longer part of the legislative reform package. While they may be gone, they will not be forgotten. On September 9, 2005, the Federal Circuit decided *Symbol Technologies, Inc. v. Lemelson Medical, Education & Research Foundation L.L.P.*,¹³ affirming the judgment that a patent was invalid for prosecution laches. Presently before the Supreme Court on petition for certiorari is *eBay, Inc. v. Mercexchange L.L.C.*,¹⁴ which questions the Federal Circuit's general rule that victorious patentees should be entitled to injunctions in infringement cases. So I wish merely to warn the subcommittee that these issues may potentially darken your door in the near future, and that the patent community may require the benefit of your wise judgments in future reform efforts.

Again, my thanks to the subcommittee for allowing me to testify before you.

¹³ ___ F.3d ___ (Fed. Cir. Sept. 9, 2005).

¹⁴The Federal Circuit opinion is available at 401 F.3d 1323 (Fed. Cir. 2005).